

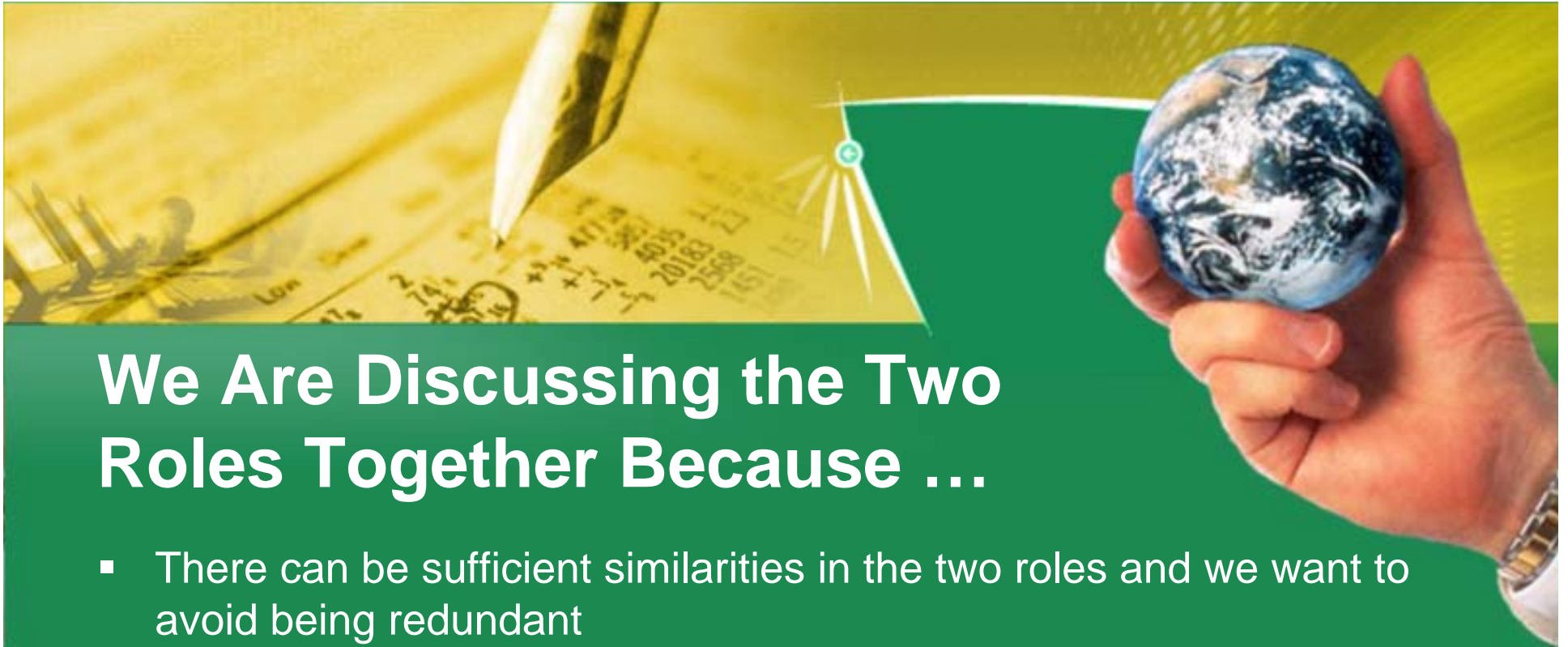
# California Debt and Investment Advisory Commission

## The Role of the Financial Advisor and Underwriter

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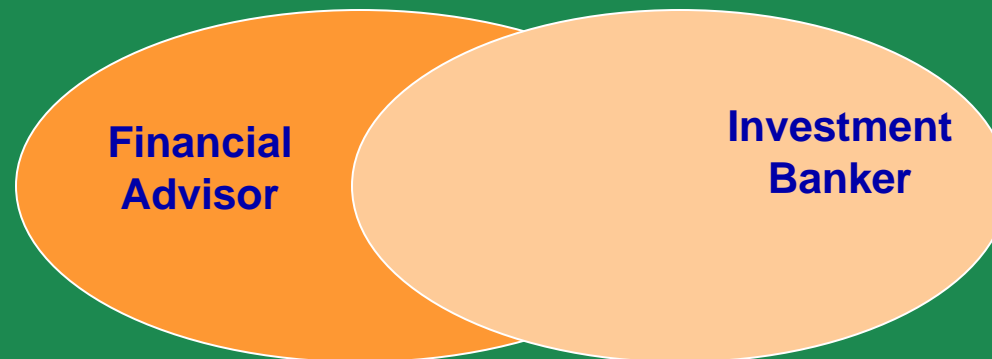
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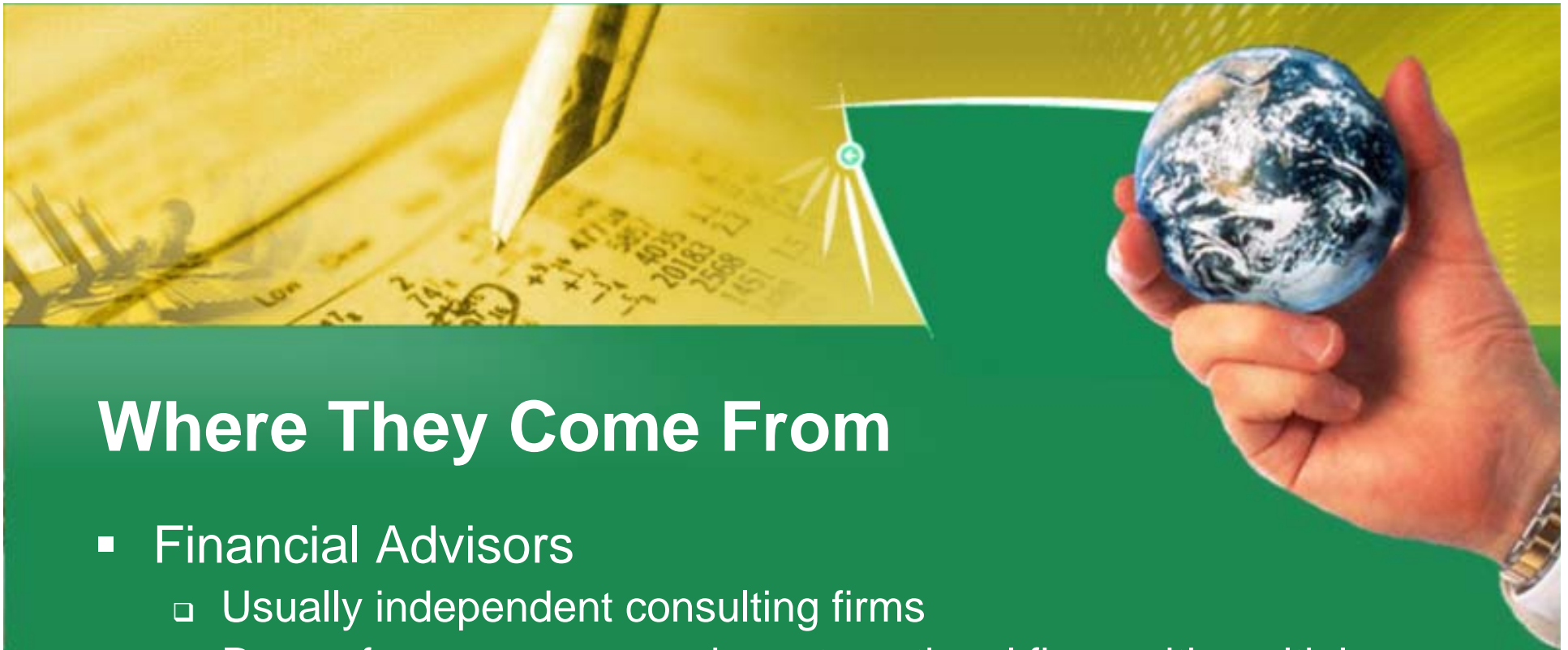
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# We Are Discussing the Two Roles Together Because ...

- There can be sufficient similarities in the two roles and we want to avoid being redundant
- To hopefully prove that FAs and Bankers can successfully work together





# Where They Come From

- Financial Advisors
  - Usually independent consulting firms
  - Range from one-person shops to national firms with multiple offices
  - Occasionally investment bankers wearing another hat
- Underwriters
  - National, regional or boutique broker-dealers
  - Investment banking staff structures the transaction
  - Underwriting and sales staff prices and distributes the transaction to investors



# Key Roles of These Two Players

- Formulating debt financing plan
  - Role of FA and Underwriter may overlap
- Selling the Bonds
  - Role of FA and Underwriter very different
  - Financial advisors do not purchase the bonds they work on
  - As senior manager, the underwriting firm purchases the bonds they work on
- Underwriter really plays two roles
  - Investment banker
  - Marketing, sales and underwriting



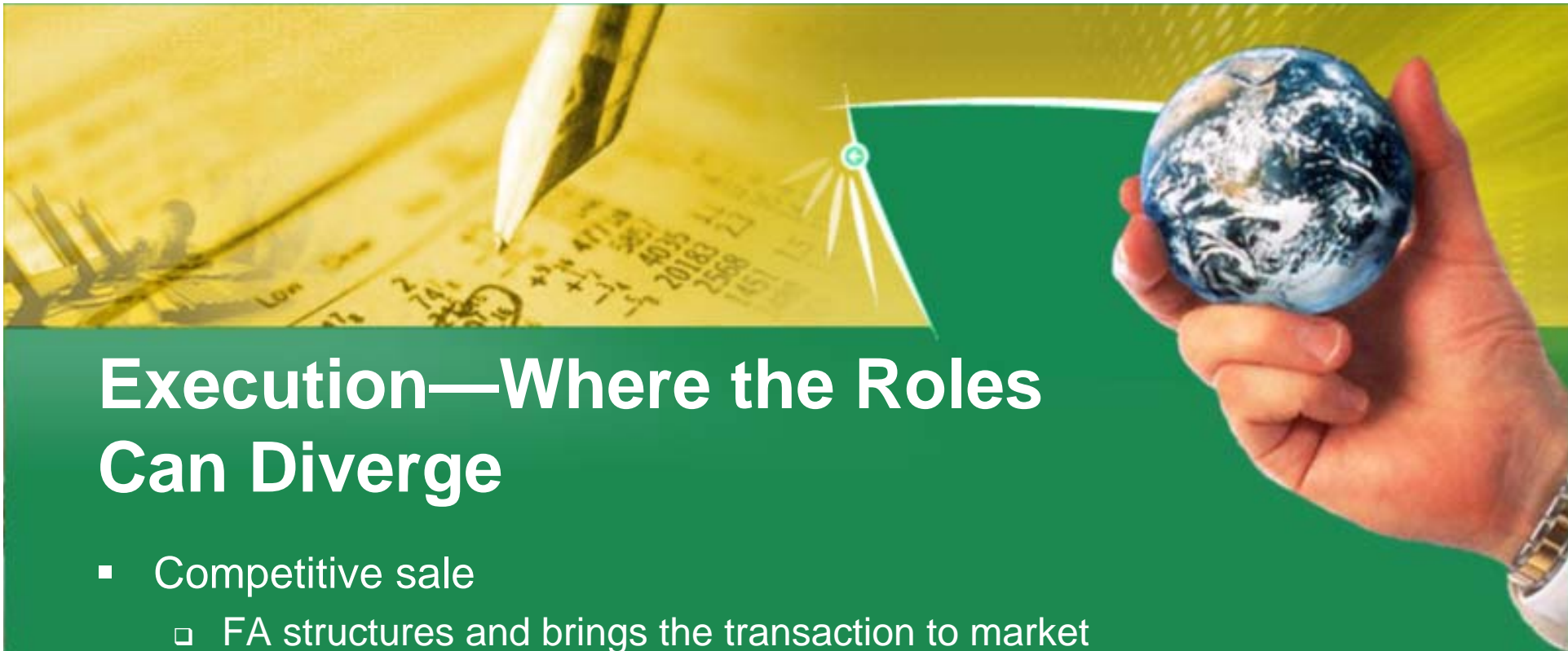
# Formulating the Plan of Finance (FA and/or Banker)

- What are you (i.e., the issuer) trying to accomplish?
- How are you going to pay for it?
  - Bonds are not the answer; how do you pay off the bonds?
- When do you need the money?
- What is the broader context?
  - Total debt structure
  - Financial policies



# Designing the Plan of Finance (FA and/or Banker)

- Type of debt
  - Revenue or tax-backed
  - Bond or COP
  - Fixed or variable
- Term of debt
- Other structuring considerations



# Execution—Where the Roles Can Diverge

- Competitive sale
  - FA structures and brings the transaction to market
  - Numerous underwriting firms bid to purchase these bonds
- Negotiated sale
  - Underwriter selected earlier in the process
  - Underwriter helps to structure the bonds as well as purchase them
  - May or may not have an FA involved



# Key FA/Banker Roles in Execution— Competitive or Negotiated Sales

- Documentation
  - Indenture
  - Official Statement
- Credit process
  - Ratings
  - Bond insurance



# Key Underwriter Roles in Execution—Negotiated Sale

- Investment bankers work with their desk to develop bond structure and terms to be attractive to investors
- Underwriter and sales desk pre-market bonds to investors
- Establishes initial pricing terms
- Takes orders
- Re-prices as appropriate
- Executes bond purchase agreement (“BPA”)



## Key FA Roles in Execution— Negotiated Sale

- Reviews and analyzes proposed bond structure and terms
- Reviews and analyzes proposed spread and interest rates
- Reviews performance



## Key FA Roles in Execution— Competitive Sale

- Prepare notice inviting bids
- Post preliminary official statement
- Receive bids on electronic platform
- Manage closing



# Key Underwriter Roles in Execution—Competitive Sale

- Bid on the bonds
- Underwriting firm with the highest price/lowest yield wins and purchases bonds



# When Do You Hire a Financial Advisor?

- When you don't know whether you want to sell bonds at competitive or negotiated sale
- When you know you want to sell bonds at a competitive sale
- When you want an independent voice in the process of a negotiated sale
- When you want a general advisor that transcends a given transaction
- Financial advisors are not just for “unsophisticated” and “infrequent” issuers
  - **Large, frequent issuers tend to use financial advisors on all of their transactions**



# FA's and Investment Bankers: How Many Cooks Are Too Many Cooks?

- FA's can play a range of roles and relationships on negotiated underwritings from:
  - Structuring the entire transaction and bringing on a desk at the end just to sell the bonds; to
  - The limited role of a pricing advisor
- Many negotiated transactions do not even have a financial advisor
- Key to a successful sale is a team that works together in the issuer's interest

